

MINUTES
Highway Expansion and Extension Loan Program
Advisory Committee Meeting
March 6, 2001

Committee Members Present:

Cliff Potts
Paul Schwartz
Jeff Martin

Bill Beyer
Gary Magrino

Members Absent:

Tami Ryall

Call to Order

Ms Peters called the meeting to order at 1:40 p.m. A quorum was present.

Adoption of the Minutes January 18th meeting.

Ms. Peters called for approval of the minutes of the January 18, 2001 regular meeting. A motion was made by Mr. Beyer and seconded by Mr. Schwartz. The motion carried unanimously

Staff Reports

Ms. Perry updated Members on the Cash Status Report. Ms Perry told the Committee a \$25 million payment to the State Treasurer for the BFO was included in the report. Ms Perry explained that the Loan Status report included draw downs for La Paz County, and the interest rate for the loan had been set at 2.925%. Ms. Peters told the Committee that she had met with the La Paz County Board of Supervisors, not related to the loan, and that during the meeting some of the Board of Supervisors expressed their gratitude for the HELP Loan.

Mr. Magrino asked if HELP's administrative costs were consistent with states running one, two and three nation wide. Ms. Tsutsumida, FHWA, told the committee she thought administrative costs were lower than most states. Mr. McGee reminded the Committee federal law allows up to two percent of the original capitalization of the bank to be spent on administrative costs. Mr. McGee explained that only direct expenses including; staff's time, printing, and other direct costs associated with the outreach program were being charged against the fund. Mr. McGee told the Committee the anticipated administrative costs would be between \$125,000 and \$175,000 per year.

Mr. Magrino asked staff to update the Committee on the legislative mandate of 50-25-25 at the April Advisory Committee Meeting.

Mr. McGee introduced Kathleen Morley to the Committee. He told the Committee Ms. Morley has been with Financial Management Services since his appointment as Chief Financial Officer. Mr. McGee told the Committee that responsibility for oversight of the HELP program had been transferred to Ms Morley, and he was confident she would do an excellent job in her new role.

Mr. McGee summarized activity for the first Board Funding Obligation (BFO); the first \$100 million was drawn in four takedowns, \$25 million in October 1999, March 2000, May 2000 and June 2000, and that repayment had to be made in October 2000, March 2001, May 2001 and June 2001. The Committee was reminded the first borrowing was for one year and that the interest rate for each take

down is based on T-Bill rates for T-Bills maturing closest to the repayment date. Mr. McGee told the Committee the average interest rate was 6.25%, and that interest rates ranged from 5.8% to 6.75%. Mr. McGee stated because interest rates have fallen over the past four to six months a decision was made, and the Treasurer's Office notified, that the first \$50 million of the second BFO would be borrowed on March 15. Mr. McGee explained the decision was made even though funds were not needed for cash flow purposes. Mr. McGee told the Committee the interest rate for the \$50 million is expected to be around 4.82 % for three years and the Treasurer's Office will verify the rate by letter. Members were told the second \$50 million will have to be borrowed by June 30 and that hopefully interest rates will remain low.

Ms. Peters asked if the second BFO would be spent on specific projects. Mr. McGee stated that unlike the first BFO which was designated for right of way purchases on the MAG freeway system, there was flexibility and discretion on which funds would be used to fund which projects.

Mr. Schaefer told the Committee five workshops were scheduled to be held in Tucson, Casa Grande, Lake Havasu, Pinetop and Flagstaff, beginning March 8 and ending March 28. Mr. Schaefer told the Committee he hoped to generate additional interest in the HELP program and be able to sit down with communities to discuss specific projects. The Committee was told he expected to receive the first of four loan applications from the City of Yuma in the near future. Mr. Beyer asked if Mr. Schaefer wrote letters to all the communities in the vicinity of each workshop. Mr. Schaefer explained that in addition to the mail out he has made calls to several communities. Ms. Peters asked if there were plans for a HELP presentation at this years Rural Development Conference. Mr. Schaefer stated he had contacted the Rural Development people regarding the conference. In addition the League of Cities has been contacted regarding their conference. Mr. Schaefer told the Committee he was confident HELP would be present at both, but was not sure in what manner.

Mr. McGee gave the Committee an update on Legislative issues. He explained there were at least three legislative proposals that would impact the BFO program and the capitalization of the HELP program from that funding source. A recommendation from the Governor's Office would eliminate the last two years of general fund funding or the capitalization of the HELP fund and replace it with an additional \$40 million in BFO borrowing capacity. The proposal was not originally in the JLBC budget recommendation, but, the JLBC has since revised their recommendation to be in alignment with the Governor's and will most likely be part of the budget when passed. Mr. McGee told the Committee the recommendation would significantly reduce the ultimate capitalization of the fund in 2008, when the last BFO's have to be repaid. Mr. McGee stated that the general fund monies would not have had to be repaid, but the BFO monies would have to be repaid. He told the Committee that depending on interest rates there would be pay out of between \$15 and \$20 million in additional interest costs. The Committee was told capitalization of the fund was originally estimated at \$160 million but the result of proposal decreases capitalization to \$100 million in 2008.

Mr. McGee told the Committee of a proposal by the joint House and Senate sub committees that would reduce the general fund hold harmless monies coming to the Department by \$25 million each year for the next two years and increase BFO borrowing capacity by \$50 million. The proposal is not endorsed by the Governor's Office and the Governor's Office is working with the Department to get that proposal off of the table. Mr. McGee told the Committee a third proposal was added as a note to the appropriations recommendation that would increase the Department's HURF bonding capacity by \$200 million, from \$800 million to \$1 billion and increase the Board's BFO capacity by \$50 million. He stated the intent of that proposal was to generate an additional \$250 million to advance the MAG

freeway system completion date from 2007 to 2005. Mr. McGee told the Committee the Department does not feel advancing the completion date is physically possible

In response to a Member's question, Mr. McGee stated the Department does not support substituting revenue with additional borrowing capacity, that borrowing capacity should support revenue a stream, not replace it.

Mr. McGee asked the Committee if there was interest in including Vision 21 recommendations as an agenda item at the next meeting. Mr. Beyer asked what in the recommendations would negatively impact the HELP program. Mr. McGee told Members he was not aware of anything. Ms. Peters told the Committee the Transportation Board had asked the Vision 21 co-chairs to meet with them in a study session. She told Members the Study Session would be held March 15, from 3:00 p.m. to 5:00 p.m. in the Board Room, they were welcome to attend.

Ms. Peters asked with the down turn in the economy if there was a possibility that the Department would not be able to exercise the BFO. Ms. Peters stated the question was based on the original legislation that authorized BFO but required the treasury balance to be above a certain level. Mr. McGee stated that in recent conversations with Richard Petrenka, from the State Treasurer's Office gave no indication that the BFO would not be funded. Mr. McGee added that the only time the Treasurer's Office could not fund the BFO is when the request is made, and the General Fund's investible funds fall below \$800 million.

Ms. Peters asked if there was the possibility that the legislature would both not give HELP the two \$20 million increments of general fund monies and not increase BFO capacity by \$40 million. Mr. McGee responded he has been given no indication of that happening and that as long as there was a consensus in the Governor's Office and the legislature that completion of the MAG freeway system in 2007 is a high priority, HELP would continue to be funded.

Mr. McGee reminded the Committee that the next meeting would be held April 13, in Tucson and would be hosted by the Town of Marana, with a luncheon at 12:00 and the meeting beginning at 1:00. The Committee agreed the May meeting will be held May 8, in Phoenix at 1:30.

Naha 'Ta' Dziil Road – Sanders TI Application

Mr. Schaefer gave the Committee an overview of the project. The requested loan will accelerate the design portion of the project from FY02 to the current fiscal year. Mr. Schaefer told the Committee the project is the alignment of US 91 TI at I-40, to the west of the existing TI, includes three new bridges, a raised profile, sidewalks and lighting. The Committee was told the project would improve vehicle and pedestrian safety on that roadway. Mr. Schaefer told the Members the Technical Committee's scores were included in their packets, the application scored 71.42 and was recommended for approval by the Advisory Committee. Mr. Schaefer added approval of the loan will allow construction to begin on schedule.

Ms. Peters entertained a motion to approve recommendation of the application. A motion was made by Mr. Beyer to recommend approval of the application and seconded by Mr. Schwartz. Motion passed unanimously.

Meeting adjourned at 2:40 p.m.